

## Message Text

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FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 DODE-00 PA-01 PRS-01 AGR-05 EA-07

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PASS TO COSTAS MICHALOPOULOS

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TAGS: EFIN

SUBJECT: COMMENTS ON DAC/FA(76)3 OF JANUARY 21, 1976

1. THE FOLLOWING ARE USG COMMENTS ON DAC/FA(76)3, "DEBT PROBLEMS OF DEVELOPING COUNTRIES, STATE OF CURRENT DISCUSSIONS".

2. PARAGRAPH 10 (C): THE DISTINCTION BETWEEN "CREDITOR CLUBS" AND "AID GROUPS" IS AN OVER-SIMPLIFICATION AND IS MISLEADING. "CREDITOR CLUBS" DO IN FACT INCLUDE OFFICIAL  
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NON-COMMERCIAL DEBT WITHIN THE SCOPE OF THEIR NEGOTIATIONS.

MOREOVER, THE USG DOES NOT VIEW RELIEF BY "AID GROUPS" PRIMARILY IN TERMS OF PROVIDING UNTIED ECONOMIC ASSISTANCE. THE RECENT AID-TO-PAKISTAN CONSORTIUM RESCHEDULINGS WERE, FOR EXAMPLE, PRIMARILY BASED ON THE NEED TO EFFECT AN ORDERLY DIVISION OF DEBT SERVICING RESPONSIBILITIES BETWEEN PAKISTAN AND BANGLADESH DUE TO THE EVENTS OF 1971.

3. PARAGRAPHS 11 TO 14 GIVE IMPRESSION OF SERIOUS SPLIT WITHIN DAC. BASED ON GOVERNMENT POSITIONS AS THEY WERE EXPRESSED AT LAST FALL'S UNCTAD CIFT MEETING, ALL MAJOR CREDITORS (CANADA, FRANCE, FRG, JAPAN, US AND UK) WOULD BE IN THE "MAJORITY" WHICH IS OPPOSED TO GENERAL RELIEF ACTION. ON-GOING CONTACTS WITH THESE COUNTRIES INDICATE

THEY CONTINUE TO SUPPORT STRONGLY THE "CASE-BY-CASE" APPROACH. THESE SIX CREDITORS ACCOUNT FOR OVER 95 PERCENT OF 1975 DEBT SERVICE (ON GOVERNMENT LENDING) OWED TO DAC COUNTRIES BY THE MSAS. BY WAY OF CONTRAST, THE NETHERLANDS, NORWAY, AND SWEDEN -- THE PRIME ADVOCATES OF GENERALIZED RELIEF -- ACCOUNTED FOR A TOTAL OF ONLY 1.7 PERCENT. WE REMAIN SERIOUSLY CONCERNED THAT THE DAC'S EFFORTS TO MAINTAIN AN "EVEN-HANDED" POSITION ON THE DEBT ISSUE GIVES UNWARRANTED IMPORTANCE TO VIEWS OF NETHERLANDS, NORWAY AND SWEDEN AND ARE LIKELY ENCOURAGING LDC EXPECTATIONS ON DEBT ISSUE WHICH CANNOT BE MET.

4. REQUEST MISSION PROVIDE US WITH DETAILED ASSESSMENT OF POSITIONS OF MAJOR CREDITORS AS EXPRESSED IN THE DAC. ALSO REQUEST MISSION MAKE EVERY EFFORT TO INSURE DAC DESCRIPTIONS OF CREDITOR COUNTRY POSITIONS EMPHASIZE THE RELATIVE IMPORTANCE (AS CREDITORS) OF THE COUNTRIES ADOPTING THOSE POSITIONS.

5. PARAGRAPH 16: IN THEIR REFERENCE TO "SPECIAL ACTION" WE ASSUME SECRETARIAT HAS IN MIND THE VERY SUBSTANTIAL MEASURES THAT HAVE ALREADY BEEN INITIATED IN THE AREAS OF FINANCE AND DEVELOPMENT TO HELP ALLEVIATE LDC PROBLEMS CAUSED BY RECENT ECONOMIC EVENTS.

6. PARAGRAPHS 16 TO 20: THE USG DOES NOT BELIEVE IT IS LIMITED OFFICIAL USE

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POSSIBLE TO ESTABLISH GENERAL CRITERIA FOR DEBT RELIEF APPLICABLE TO ALL COUNTRIES AND ALL CASES. WHILE THE SUGGESTIONS OF PARAGRAPHS 18 TO 20 ARE SOMEWHAT VAGUE, IT APPEARS THE SECRETARIAT IS HEADING IN THE DIRECTION OF "AUTOMATIC" DEBT RELIEF ELIGIBILITY BOTH FOR BALANCE OF PAYMENTS SUPPORT AND AS A MEANS OF ASSISTING LDCS MEET THEIR "GROWTH OBJECTIVES". THIS WOULD BE COMPLETELY UNACCEPTABLE TO USG.

7. PARAGRAPHS 30 TO 32 OF THE REPORT OF THE AD HOC GROUP OF GOVERNMENT EXPERTS (ESTABLISHED BY A 1973 UNCATD RESOLUTION) TREATED THE "COMMON ELEMENTS IN DEBT REARRANGEMENTS". WE WOULD HAVE GREAT DIFFICULTY ACCEPTING ANY "COMMON ELEMENTS" OTHER THAN THOSE NOTED IN THIS UNCTAD REPORT.

8. AS REGARDS TO BOTH UNCTAD IV AND THE CIEC, THE USG BELIEVES THAT THE DEBT PROBLEM SHOULD BE TREATED WITHIN THE BROADER CONTEXT OF THE OVERALL LDC BALANCE OF PAYMENTS POSITION.

--GIVEN THE NEW RESOURCES PROVIDED FOR AT THE RECENTLY CONCLUDED INTERIM COMMITTEE MEETING, THERE IS REASON TO BE

OPTIMISTIC THAT THE INTERNATIONAL FINANCIAL SYSTEM AND ASSISTANCE MECHANISMS ARE ADEQUATE TO COPE WITH THE AGGREGATE LDC CURRENT ACCOUNT DEFICIT IN 1976.

--THE MSAS CONSTITUTE A DISTINCT PROBLEM. WE ARE SYMPATHETIC TO THEIR PLIGHT, AND BELIEVE EFFORTS TO ALLEVIATE THEIR FINANCING DIFFICULTIES MUST FOCUS ON IMPROVING AND EXPANDING NEW CONCESSIONAL AID FLOWS RATHER THAN GENERALIZED DEBT RELIEF.

9. REALIZING THE CURRENT IMPASSE BETWEEN CREDITOR AND DEBTOR POSITIONS WOULD NOT BE CONDUCIVE TO CONSTRUCTIVE UNCTAD DIALOGUE, IT WAS SUGGESTED IN THE DAC MEETING OF NOVEMBER 24 THAT DAC CREDITORS MAY WISH TO CONSIDER DIVERTING UNCTAD ATTENTION FROM THE DEBT ISSUE BY FOCUSING ON NON-DEBT ISSUES (SUCH AS QUALITY OF TERMS ON AID TO MSAS). WE FULLY SUPPORT DIVERTING ATTENTION FROM THE LIMITED OFFICIAL USE

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DEBT ISSUE, AND BELIEVE THIS POSITION MORE ACCURATELY REFLECTS MAJORITY DAC VIEW THAN THE INTERPRETATION OF PARAGRAPH 14.

10. IN UNCTAD AND CIEC DISCUSSIONS FOCUSED SPECIFICALLY ON "DEBT" THE US BELIEVES THAT THE CREDITORS SHOULD:

--REJECT FIRMLY ANY APPROACHES WHICH WOULD JEOPARDIZE THE "CASE-BY-CASE" PROCEDURE; AND

--ATTEMPT TO CONCENTRATE ATTENTION ON "INSTITUTIONAL" IMPROVEMENTS IN THE MANNER IN WHICH ACUTE DEBT DIFFICULTIES ARE HANDLED. KISSINGER

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